ANDERSON EXPLORATION LTD.

94

ANNUAL REPORT

ANDERSON EXPLORATION LTD.

NOTICE OF AND INFORMATION CIRCULAR FOR ANNUAL GENERAL MEETING OF SHAREHOLDERS OF ANDERSON EXPLORATION LTD.

December 22, 1994

THIS NOTICE AND INFORMATION CIRCULAR IS BEING SENT TO THE SHAREHOLDERS OF ANDERSON EXPLORATION LTD. IN CONNECTION WITH THE ANNUAL GENERAL MEETING OF ALL SHAREHOLDERS TO BE HELD ON WEDNESDAY, FEBRUARY 15, 1995, AT THE WESTIN HOTEL, 320 - 4TH AVENUE S.W., CALGARY, ALBERTA, COMMENCING AT 3:00 P.M. (CALGARY TIME).

ANDERSON EXPLORATION LTD.

Notice of Annual General Meeting

February 15, 1995

TAKE NOTICE that the Annual General Meeting (the "Meeting") of the shareholders of Anderson Exploration Ltd. (the "Corporation") will be held at the Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta, on Wednesday, the 15th day of February, 1995 at the hour of 3:00 o'clock in the afternoon (Calgary time) for the following purposes:

1. to receive and consider the 1994 annual report and the financial statements for the years ended September 30, 1994 and 1993 and the report of the auditors thereon;

2. to elect directors for the ensuing year;

3. to appoint auditors for the ensuing year; and

4. to transact such other business as may properly come before the meeting or any adjournments thereof.

Particulars of the matters referred to above are set forth in the accompanying Information Circular.

Shareholders who are unable to attend the Meeting are requested to date, sign and return the enclosed form of proxy in the enclosed pre-addressed and postage-paid envelope to be received by the Corporation's transfer agent not less than 48 hours, excluding Saturdays and holidays, prior to the time of the Meeting or any adjournment thereof.

DATED at Calgary, Alberta, the 22nd day of December, 1994.

By Order of the Board of Directors

(Signed) D. G. SCOBIE
Secretary

All of the directors and officers of the Corporation have been engaged for more than five years in their present principal occupations or executive positions or other positions with the same firm with the exception of Mr. Bayer, who prior to July, 1991, was President and Chief Executive Officer of Kerr Addison Mines Limited and Minnova Inc. and Mr. Macdonald, who prior to February, 1992 was President and Chief Executive Officer of Columbia Gas Development of Canada Ltd. and prior to June, 1990 was Executive Vice-President of Voyager Energy Inc.

EXECUTIVE COMPENSATION

Cash

The Corporation had nine executive officers during the year ended September 30, 1994. The aggregate cash compensation paid to the Corporation's executive officers, including salaries, fees, commissions and bonuses, during the year ended September 30, 1994 was $1,569,116.

Summary Compensation Table

The following table discloses total compensation received by the Corporation's chairman and chief executive officer and each of the Corporation's four other most highly compensated officers measured by base salary during the year ended September 30, 1994.

		Annual Compensation		Long-Term Compensation
Name and Principal Position	Year Ended September 30	Salary ($)	Other Annual Compensation (3) (4) ($)	Securities Under Options Granted (#)
J. C. Anderson Chairman and Chief Executive Officer	1994 1993 1992	380,000 342,500 330,000	39,069 (5)	— — —
L. J. Macdonald President and Chief Operating Officer	1994 1993 1992	234,000 216,250 82,788 (1)	36,457 (6)	60,000 80,000 220,000
D. G. Scobie Senior Vice-President and Chief Financial Officer	1994 1993 1992	180,500 166,500 147,333	34,390 (6)	60,000 60,000 121,920
K. E. O'Donnell Vice-President, Exploration	1994 1993 1992	160,192 133,250 (2) 139,000	28,061 (7)	48,000 48,000 30,000
A. H. Williamson Vice-President, Operations	1994 1993 1992	159,000 153,000 150,000	30,550 (8)	24,000 30,000 81,920

Notes:

(1) Mr. Macdonald commenced employment with the Corporation on May 11, 1992.

(2) Mr. O'Donnell was absent for a one month unpaid leave of absence in 1993.

(3) "Other Annual Compensation" consists of Employee Stock Savings Plan Contributions ("ESSP"), Registered Retirement Savings Plan Contributions ("RRSP"), and car lease and expenses.

(4) In accordance with transitional provisions of the rules on executive compensation disclosure in information circulars, amounts of "Other Annual Compensation" have not been included for fiscal years 1993 and 1992.

(5) Perquisites and personal benefits exceeding 25% of the aggregated value of other annual compensation in 1994 were contributions to the ESSP of $13,250 and contributions to the RRSP of $12,250.

(6) Perquisites and personal benefits exceeding 25% of the aggregated value of other annual compensation in 1994 were contributions to the ESSP of $13,250.

(7) Perquisites and personal benefits exceeding 25% of the aggregated value of other annual compensation in 1994 were contributions to the ESSP of $12,770.

(8) Perquisites and personal benefits exceeding 25% of the aggregated value of other annual compensation in 1994 were contributions to the ESSP of $12,720.

Employees' Stock Option Plan

An Employees' Stock Option Plan (the "ESOP") was established in 1988 for officers and full time employees of the Corporation. The ESOP permits the granting of options to purchase up to 4,000,000 Common Shares of the Corporation from time to time. The directors of the Corporation are authorized to grant employee options under the ESOP from time to time and to fix the terms thereof at the time of grant. The price at which the option shares are exercisable will be equal to the closing market price on the trading day immediately preceding the date of grant. At September 30, 1994 there were issued and outstanding under the ESOP options to purchase 2,113,758 Common Shares for a consideration ranging from $4.19 to $16.81 per Common Share. Seven executive officers, as a group, at September 30, 1994 held options to purchase 870,914 Common Shares and all other employees, collectively, held options to purchase the remaining shares. The options are valid for a five year period, 545,958 are exercisable at any time and 1,567,800 vest at various dates in the future. The exercise price is payable in full upon the exercise of the options.

For the year ended September 30, 1994, 239,666 options granted under the ESOP were exercised by executive officers and Common Shares were issued at an average aggregate net value (market value less the exercise price at the date of exercise) of $10.84 per share.

During fiscal 1994, a total of 1,086,000 stock options were granted under the ESOP. Of this amount 192,000 were granted to named executive officers, as shown in the following table. These options vest 33% per annum commencing on May 11, 1995.

Options Granted During the Year Ended September 30, 1994

Name	Securities Under Options Granted (#)	% of Total Options Granted to Employees in 1994	Exercise Price ($/share)	Market Value of Securities Underlying Option on the Date of Grant ($/share)	Expiration Date
L. J. Macdonald	60,000	5.5	$16.81	$16.81	May 11, 1999
D. G. Scobie	60,000	5.5	16.81	16.81	May 11, 1999
K. E. O'Donnell	48,000	4.4	16.81	16.81	May 11, 1999
A. H. Williamson	24,000	2.2	16.81	16.81	May 11, 1999

The following table provides details of stock options exercised during fiscal year 1994 by named executive officers and the net value realized. The table also details at September 30, 1994, the number of exercisable and unexercisable options that were unexercised and also the value of such options where they were in the money.

Aggregated Option Exercises During the Year Ended September 30, 1994 and Financial Year End Option Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at September 30, 1994 (#)		Value of Unexercised in the Money Options at September 30, 1994 (1) ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
L. J. Macdonald	50,000	629,375	148,600	140,000	$1,662,462	$310,000
D. G. Scobie	20,000	240,000	52,980	100,000	487,714	257,500
K. E. O'Donnell	23,500	215,469	0	80,000	0	206,000
A. H. Williamson	21,920	269,890	10,000	44,000	64,375	128,750

(1) Based on September 30, 1994 close on the TSE of $15.375.

As at November 30, 1994, options to purchase an aggregate of 2,118,358 Common Shares were outstanding. Of this amount options to purchase 870,914 Common Shares were held by the executive officers as a group, and 1,247,444 shares by all other full-time employees.

The following table provides details of options issued to all employees, remaining outstanding at November 30, 1994.

Date of Grant	Exercise Price per Share ($)	TSE Closing Price on Date of Grant ($)	Common Shares Outstanding Under Options as at November 30, 1994
Executive Officers (7)			
February 14, 1992	$ 4.19	$ 4.19	221,580
May 12, 1992	5.19	5.19	34,000
February 8, 1993	7.56	7.56	13,334
March 31, 1993	8.94	8.94	222,000
May 4, 1993	11.50	11.50	80,000
May 11, 1994	16.81	16.81	300,000
All other employees:			
February 14, 1992	4.19	4.19	24,444
March 12, 1992	4.75	4.75	2,800
June 29, 1992	5.56	5.56	20,000
February 1, 1993	6.81	6.81	6,600
March 31, 1993	8.94	8.94	228,400
June 1, 1993	12.63	12.63	54,200
July 7, 1993	13.44	13.44	20,000
August 9, 1993	14.69	14.69	24,000
August 23, 1993	16.19	16.19	24,000
September 8, 1993	15.69	15.69	42,000
November 4, 1993	15.50	15.50	18,000
December 1, 1993	15.00	15.00	4,200
January 3, 1994	14.56	14.56	24,000
May 11, 1994	16.81	16.81	708,600
August 5, 1994	15.75	15.75	7,200
August 8, 1994	15.13	15.13	12,000
September 16, 1994	16.13	16.13	12,000
November 1, 1994	15.38	15.38	15,000

During the 1994 fiscal year the following options were exercised by all employees:

	Date of Exercise	Common Shares Purchased (#)	Exercise Price ($/share)	Average Price of Common Shares on the TSE on the Date of Exercise ($/share)	Aggregate Gain ($)
Employees (53)	various	196,620	$ 4.19	$16.73	$2,466,334
	October 7, 1993	20,000	5.19	17.19	240,000
	July 7, 1994	4,000	5.56	16.88	45,200
	February 9, 1994	6,600	6.81	16.25	62,288
	various	22,666	7.56	16.10	193,411
	various	187,800	8.94	16.92	1,499,763
	various	26,600	12.62	16.79	110,875
	January 24, 1994	10,000	13.44	16.25	28,125

Employee Stock Savings Plan

An Employee Stock Savings Plan (the "ESSP") was established in 1988 to provide full time employees the opportunity to participate in the future growth of the Corporation through the purchase of Common Shares of the Corporation. Under the ESSP, any qualifying employee may contribute up to specified percentages ranging from 4 percent to 8 percent of basic earnings. The specified percentages increase with length of service. Employee contributions may be invested in qualified money market instruments or Common Shares of the Corporation.

Pursuant to the ESSP, the Corporation makes contributions on the employee's behalf in an amount equal to the employee contributions. The Corporation contributions are paid out of profits and are invested in Common Shares of the Corporation purchased in the open market or from treasury. At September 30, 1994, the Corporation had authorized 661,796 Common Shares in respect of treasury purchases under the ESSP, which purchases will be made at market value. All employees of the Corporation are eligible to participate in the ESSP.

The Corporation contributed $100,583 during the year ended September 30, 1994 to the ESSP on behalf of nine executive officers resulting in 6,262 Common Shares being purchased by executive officers.

Employment Contracts for Certain Executives

The Corporation has entered into employment contracts with Messrs. Macdonald and Scobie.

Mr. Macdonald's contract provides that in the event the agreement is terminated without cause, Mr. Macdonald will receive either such termination payments as he may be entitled to at law, or, if greater, a payment equal to 24 months salary. If such termination occurs after May 11, 1995 but before May 11, 1997 the 24 month salary amount is reduced to the number of months remaining until May 11, 1997. Any vested stock options may be exercised for a period of 30 days following the date of termination.

Mr. Scobie's contract provides that in the event that the agreement is terminated without cause or upon a change of control of Corporation as defined, Mr. Scobie will receive a payment equal to 36 months salary and the present value of 36 months benefits as well as the continuation of rights under the Corporation's Employee Stock Option Plan for a period of 36 months.

Composition of the Compensation Committee

The members of the compensation committee of the Board of Directors are W. Gordon Brown, Peter A. Cherniavsky and J. Richard Harris. The committee reviews compensation and benefits policies with respect to executive officers and all salaried employees of the Corporation. Mr. Anderson, the Chief Executive Officer of the Corporation, provides information to the committee and also makes recommendations on compensation issues and on the compensation of the executive officers and salaried employees of the Corporation. None of the members of the compensation committee are, or have been, employees of the Corporation.

Report on Executive Compensation

The Corporation's executive compensation program is administered by the compensation committee on behalf of the Board of Directors. The compensation committee is responsible for reviewing the structure and competitiveness of the Corporation's executive compensation and benefits, and making compensation recommendations to the Board of Directors for approval with respect to the Corporation's senior executive officers.

Components of Compensation

The salary for each executive officer is determined having regard to such executive officer's responsibilities, individual performance, overall corporate performance, years of service, potential for advancement, performance reviews by immediate superiors and the assessment by the compensation committee of such other matters as may be presented by management. The Corporation's compensation policy has two components: (i) base salary and benefits and (ii) the award of stock options. The Corporation's executive officers participate in the Corporation's various benefit programs on the same basis as all employees.

The components of the Corporation's compensation policy have been designed to attract and retain highly qualified people at the executive level and to align the interests of executive officers with those of the Corporation's shareholders. The Corporation participates in an annual compensation survey for Canadian oil and gas producers which is conducted by an independent third party to assist in determining the compensation of executive officers and salaried employees.

The Corporation's compensation philosophy is to encourage, at all levels of the organization, the maximization of shareholder value by making long term equity incentives a component of compensation. The Corporation has in place an employee stock option plan under which awards have been made to a majority of salaried employees. Stock options are awarded to executive officers in amounts relative to position, performance and what is considered competitive in the industry. See "Employees' Stock Option Plan".

Compensation of Chief Executive Officer

The Chairman and Chief Executive Officer, Mr. J. C. Anderson, has been employed by the Corporation or its predecessors since 1968, when he initiated an oil and gas exploration, acquisition and development program funded by various individual and corporate investors. The Corporation's Common Shares have been publicly traded since 1988, and Mr. Anderson retains an important equity interest in the Corporation as well as directing its activities. This interest provides a strong incentive to maintain corporate performance.

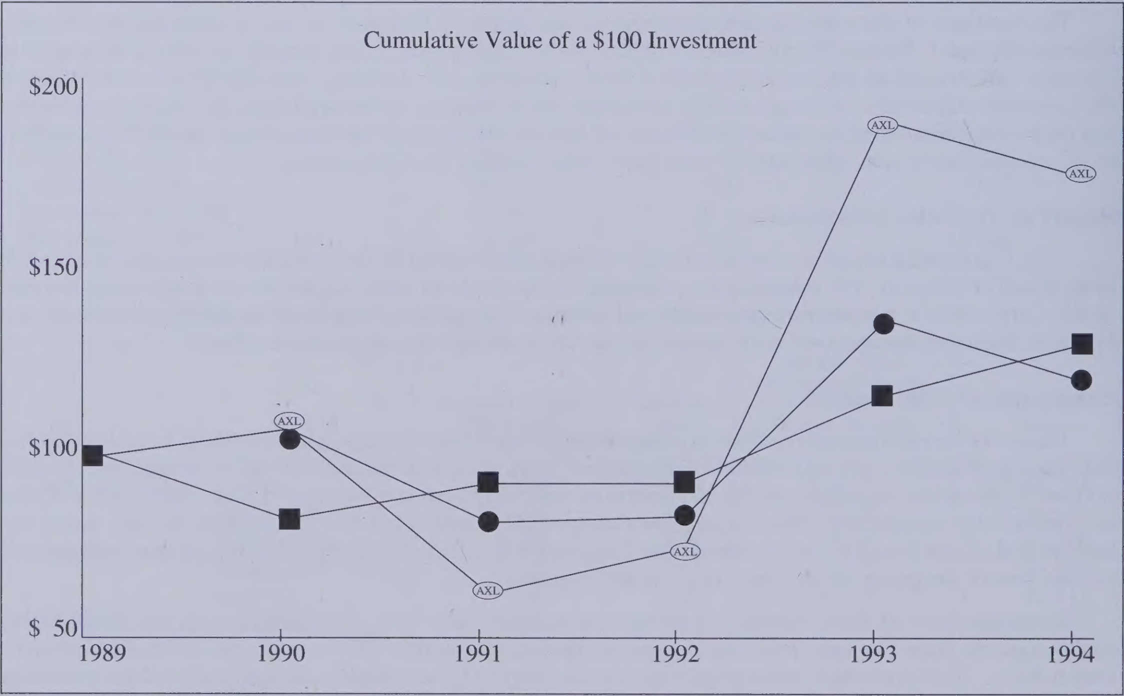
Mr. Anderson's compensation is based on annual salary and benefits and is determined by the same procedures used to develop compensation arrangements for the other officers. He has not participated in the ESOP.

Submitted by the compensation committee of the Board of Directors.

J. Richard Harris (Chairman)
W. Gordon Brown
Peter A. Cherniavsky

Performance Graph

The following graph compares the cumulative shareholder return over the last five years commencing on September 30, 1989 and ending on September 30, 1994 on the Common Shares of the Corporation (assuming a $100 investment was made on September 30, 1989) with the cumulative total return of the TSE 300 Composite Index and the TSE Oil and Gas Producers Sub-Index, assuming reinvestment of dividends.



	1989	1990	1991	1992	1993	1994
AXL Anderson Exploration Ltd.	$100	107	65	75	192	178
■ TSE 300 Composite Index	$100	83	93	93	116	130
● TSE Oil and Gas Producers Sub-Index	$100	107	83	86	135	120

Compensation of Directors

The directors of the Corporation receive an annual fee of $12,000 as compensation for their services and an additional $500 for each committee meeting participated in. Any director who is also an employee of the Corporation is not entitled to receive any of the aforementioned fees.

Interest of Insiders in Material Transactions

No director, nominee for director or officer of the Corporation, or any associate or affiliate of any of the foregoing persons, has or had any material interest in any transaction since the beginning of the Corporation's last completed fiscal year or any proposed transaction that has materially affected, or will materially affect, the Corporation or any of its affiliates.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote **FOR** the reappointment of KPMG Peat Marwick Thorne as auditors of the Corporation, to hold office until the next annual meeting of the shareholders. KPMG Peat Marwick Thorne have been auditors of the Corporation since it was formed by amalgamation in 1982.

OTHER MATTERS

Management of the Corporation knows of no amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice.

CERTIFICATE

DATED the 22nd day of December, 1994

The contents and the sending of this Information Circular have been approved by the directors of the Corporation.

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

(Signed) J. C. Anderson
Chief Executive Officer

(Signed) D. G. Scobie
Chief Financial Officer

RONALDS PRINTING
Printed in Canada

ABOUT THE COMPANY

AXL

ABOUT THE COMPANY

Anderson Exploration Ltd. in its present corporate form results from the amalgamation of six companies in 1982. These companies evolved from a program of oil and gas exploration, acquisition and development commenced in 1968 by Mr. J.C. Anderson. Anderson Exploration became a public company in 1988. The common shares of the Company are widely held and trade on The Toronto Stock Exchange under the symbol AXL. The Company has a large oil and gas reserve base and operates 85 percent of its production. Anderson Exploration operates exclusively in Western Canada and has an experienced group of dedicated people pursuing an excellent inventory of exploration, development and acquisition projects.

ABOUT THE PHOTOGRAPHY

The landscape photographs on the cover and in this report are taken in the Peace River Arch Area of northwestern Alberta, a major operating area for Anderson Exploration. All other photographs are of Company operations, equipment and people in the Peace River Arch Area.

ANNUAL GENERAL MEETING

The Annual Meeting of Shareholders will be held on Wednesday, February 15, 1995 at 3:00 p.m. at the Westin Hotel, Calgary, Alberta.

SHARE SPLIT

All common share data in this report reflect a two for one share split which occurred in 1994.

FINANCIAL

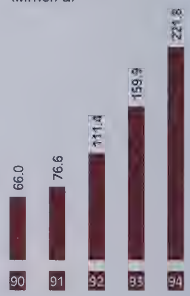
Thousands, Except Per Share Amounts	1994	1993	% Change
Revenue, Net of Royalties	$ 166,303	$ 110,698	50
Cash Flow From Operations	$ 112,243	$ 68,828	63
Per Common Share	$ 2.08	$ 1.52	37
Net Earnings	$ 24,167	$ 14,965	61
Per Common Share	$ 0.45	$ 0.33	36
Average Shares Outstanding	54,033	45,183	20
Capital Expenditures	$ 185,630*	$ 87,835	111
Long-Term Debt	$ 90,972	$ 91,000	–
Shareholders' Equity	$ 410,693	$ 276,089	49

*Excluding the cost of the Amax acquisition.

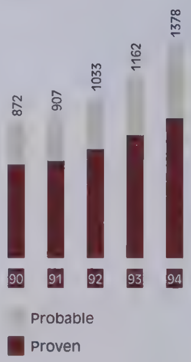
OPERATING

Daily Production			
Natural Gas (Million Cubic Feet)	222	160	39
Liquids (Barrels)			
Crude Oil	6,533	4,775	37
Natural Gas Liquids (NGL)	1,734	1,182	47
Total Liquids	8,267	5,957	39
Reserves			
Crude Oil and NGL (Million Barrels)			
Proven	29.4	19.4	52
Proven plus Probable	43.9	28.4	55
Natural Gas (Billion Cubic Feet)			
Proven	900	755	19
Proven plus Probable	1,378	1,162	19
Undeveloped Land (Thousands of Acres)			
Gross (Western Provinces)	1,379	1,189	16
Net (Western Provinces)	985	778	27
Average Working Interest (%)	71	65	9
Drilling Activity (Gross)			
Gas Wells	130	52	150
Oil Wells	62	81	(23)
Dry Holes	33	24	38
Total Wells	225	157	43

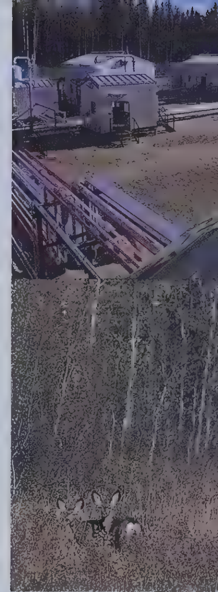
DAILY NATURAL GAS PRODUCTION
(Mmcf/d)



NATURAL GAS RESERVES
(Bcf)



We achieved our goals and objectives in 1994. Our gas delivery capacity was expanded substantially. Our acquisition and drilling programs replaced multiples of our 1994 production.



CHAIRMAN'S MESSAGE

I am pleased to report that Anderson Exploration's natural gas and liquids production again reached record levels. Although we experienced some product price weakness, in oil prices at the beginning of the year and in gas prices at the end of the year, we achieved record earnings and cash flow from operations.

1994 IN REVIEW

Natural gas production increased 39 percent over 1993 to 222 million cubic feet per day. Gross revenue from natural gas production increased 59 percent over 1993 and represented 75 percent of total production revenue. Oil and natural gas liquids (NGL) production increased to 8,267 barrels per day, also an increase of 39 percent over 1993.

Cash flow from operations increased 63 percent from 1993 to $112.2 million. Cash flow per share was $2.08 versus $1.52. Net earnings increased 61 percent. Gas prices were up but liquids prices were down. On a barrel equivalent basis, production volumes increased 39 percent while product prices increased only 10 percent, so improved financial results were primarily volume driven.

In 1994, capital expenditures, not including the Amax Petroleum of Canada Inc. (Amax) acquisition cost, were $185.6 million versus $87.8 million. During the year, the Company issued seven million shares from treasury in a public offering for net proceeds of $104 million. Our long-term obligations remained essentially unchanged at year end compared to 1993. Our long-term debt to cash flow ratio was reduced to 0.8 at year end from 1.3 at the end of 1993 and we covered interest expense 14.4 times in 1994 versus 7.8 times in 1993.

NATURAL GAS DELIVERABILITY

At the end of fiscal 1993, Anderson Exploration had the capability to deliver approximately 190 million cubic feet of gas per day. At the last annual meeting on February 16, 1994 and in other public forums, we announced our intention to increase our delivery

capacity to 275 million cubic feet per day by the end of fiscal 1994 and 300 million cubic feet per day by the end of calendar 1994. These goals have been met. By the end of December work will be complete on 31 gas development projects involving gas plant expansions or new construction which collectively add 142 million cubic feet per day to the Company's gas deliverability.

In the past three years, Anderson Exploration has more than doubled its capability to deliver gas from 135 to over 300 million cubic feet per day. Three years ago, the Company's proven gas reserve life index was 22 years. It has now been reduced to about 11 years. The present index is still long by industry standards. Even with the increasing production and reducing reserve life, 1994 year end proven gas reserves are 45 percent higher and proven plus probable reserves are 52 percent higher than they were three years ago, reflecting the success of our exploration and acquisition programs.

ACQUISITIONS

Anderson Exploration remained active in the acquisition market in 1994. We completed 39 property acquisition transactions at a cost of $15.4 million and we sold minor properties in 16 transactions for proceeds of $6.7 million. We expect to be active again in acquiring properties in 1995, but our property disposition activity will slow down considerably as minor properties acquired in corporate acquisitions have essentially been sold. Early in the year, we acquired all of the outstanding shares of Amax. The proven reserves acquired in the Amax transaction replaced 105 percent of our 1994 production on a barrel equivalent basis. In 1995, we expect to considerably enhance production from Amax properties at Hayter and Valhalla.

After the year end, on October 21, 1994, Anderson Exploration completed a significant property acquisition for $30 million. Proven plus probable reserves acquired were seven million barrels of oil equivalent with 80 percent represented by gas. This acquisition will replace approximately 50 percent of our estimated 1995 production. The properties are located in the Eaglesham area on the Peace River Arch Area of Alberta. Development work will be performed in 1995 to substantially increase production. In a separate transaction in the same area, we acquired 215 square miles of 3-D seismic data and 1,600 line miles of 2-D data. Interpretation of these data will more than likely lead to exploration success in the area.

EXPLORATION

In 1994, we spent $50.5 million in exploration up from $18.3 million in 1993. Our program has now been geared up to the desired level after a slowdown in 1992 while we absorbed the Columbia acquisition. To support our exploration program, we spent $19.5 million at Crown Land Sales, acquiring 285,600 net acres. Competition at land sales was intense. In calendar 1994, the industry in Alberta will spend over $1 billion at land sales, an all time record.

Our exploration and development drilling program added 258 billion cubic feet of proven plus probable gas reserves and 5.1 million barrels of oil and NGL reserves. Most of our exploration effort was concentrated in the Peace River Arch Area of Alberta, which is highlighted elsewhere in this report.

We expect to conduct a very active exploration program in 1995. Four experienced geologists were added to our stable exploration staff in 1994, bringing our complement of technical people in exploration to 17.

PEOPLE

During the year, our Calgary staff increased in size from 79 to 106 people and our field staff increased from 79 to 110 to accommodate our increased activity and production. In the field, Doug Moore, who has been with the Company 20 years, was promoted to District Superintendent and transferred to Lloydminster to supervise our expanding Eastern Alberta producing operations. In Calgary, Alan Archibald, a five year employee, was promoted to Vice President, Exploitation. Also in Calgary, Phil Evans, Vice President, Land retired. We thank him for his 18 years of dedicated service and wish him well.

OUTLOOK

During our budgetary process for 1995, we analyzed our costs of doing business. We estimate that our capital costs for drilling, completion, construction and seismic in 1994 were about 18 to 20 percent higher than in 1993. This is due, of course, to the high level of industry activity. We expect industry activity to continue at a high level into early 1995, but probably decrease as the year progresses largely because the equity funding of the past few years will probably not be available in 1995. Anderson Exploration's level of activity in 1995 will continue at the high level of 1994 because we have a healthy balance sheet and excellent projects to pursue.

In 1994, we again experienced a gas price increase; however, as 1995 begins, we are seeing softness in our gas prices. We do not expect a gas price increase in 1995; however, we do expect our sales volumes to increase substantially as we continue our work on gas exploration and development.

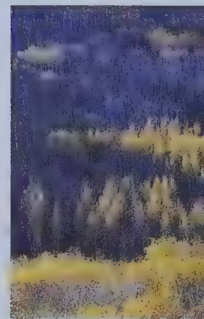
Gas consumption in the United States increased a healthy 4.1 percent or 2.3 billion cubic feet per day in the first eight months of calendar 1994. It is now beginning to appear that the producing industry on both sides of the border has responded to higher prices to more than adequately fill that demand to the extent that there is now an excess in deliverability. United States production increased 2.8 percent or 1.42 billion cubic feet per day while Canadian production increased 7 percent or 0.86 billion cubic feet per day. These increases in production plus new efficiencies in the continental delivery system have created a slight supply side surplus, which, in our opinion, is probably short-lived.

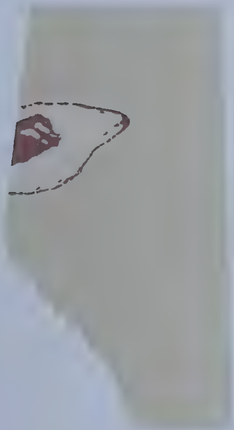
The Amax acquisition strengthened the oil side of our business and we will continue pursuing development opportunities on these and other oil properties in 1995. Our 1995 operating results, which we can control, should improve substantially. For example, in October, 1994 our production averaged 9,887 barrels of oil and NGL per day and 260 million cubic feet of gas per day up 20 and 17 percent respectively over the 1994 yearly averages. Improvement in our 1995 financial results will reflect our improved operating results but also depend on product prices, which of course we cannot control. We do feel that prospects for the upstream Canadian oil and gas business are very good for Anderson Exploration and we will continue to pursue our attractive opportunities.

We take this opportunity to thank our growing staff for their exemplary efforts on behalf of you, our shareholders, and be assured we value your support.

J.C. Anderson

J.C. Anderson
Chairman & Chief Executive Officer
December 22, 1994





In describing the location of our operations, we often refer to the Peace River Arch Area of Northwestern Alberta as one of our operating areas. Anderson Exploration got its start in the area 25 years ago and today it is still a prolific area of production and activity for the Company.

THE PEACE RIVER ARCH

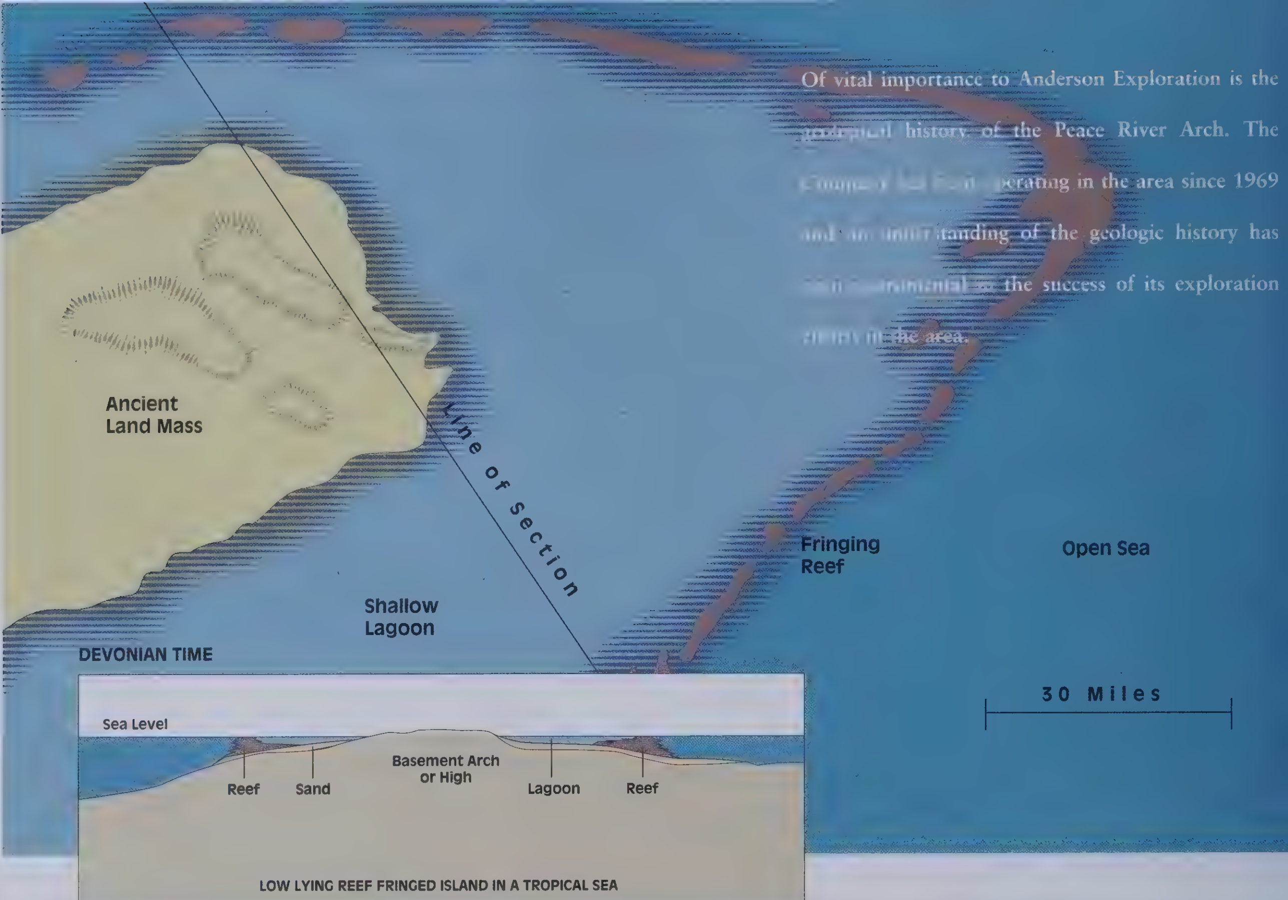
AXL

The headwaters of the Peace River are in the mountains of Northeastern British Columbia. From the point where the Peace River enters Alberta about 450 miles northwest of Calgary, it flows east and south for about 60 miles, northward and then eastward again for a total distance of about 550 miles to a point in far Northeastern Alberta where it joins the Slave River to continue its journey northward. The Peace River thus traverses a vast area of Northern Alberta. The Peace River Arch Area, as Anderson Exploration refers to it, occupies only a small portion of the Peace River Country. Its location is partially defined by present day surface geography but primarily by subsurface geologic features.

The Peace River Arch Area of Alberta, as Anderson Exploration defines it, is an approximate 10,000 square mile area centred on the Town of Fairview, Alberta about 400 miles northwest of Calgary. The Area, which represents less than four percent of the area of Alberta, is bounded by the British Columbia border on the West and in all other directions by a subsurface feature, the fringing Devonian D-3 Reef, at depths below the earth's surface varying from approximately 5,600 to over 13,000 feet.

The present day surface of the Peace River Arch is largely low relief, gently rolling open prairie and farmland, with a scattering of forested hilly areas. The Peace River dominates the region. It and other rivers and creeks deeply incise the area with forested valleys. The area is steeped in history, not the least of which is the traverse of the area in 1793 by Alexander Mackenzie, a North West Company explorer, who was the first to reach the Pacific by overland route.

Of vital importance to Anderson Exploration is the [illegible] history of the Peace River Arch. The [illegible] operating in the area since 1969 and [illegible] tanding of the geologic history has [illegible] the success of its exploration [illegible] the area.

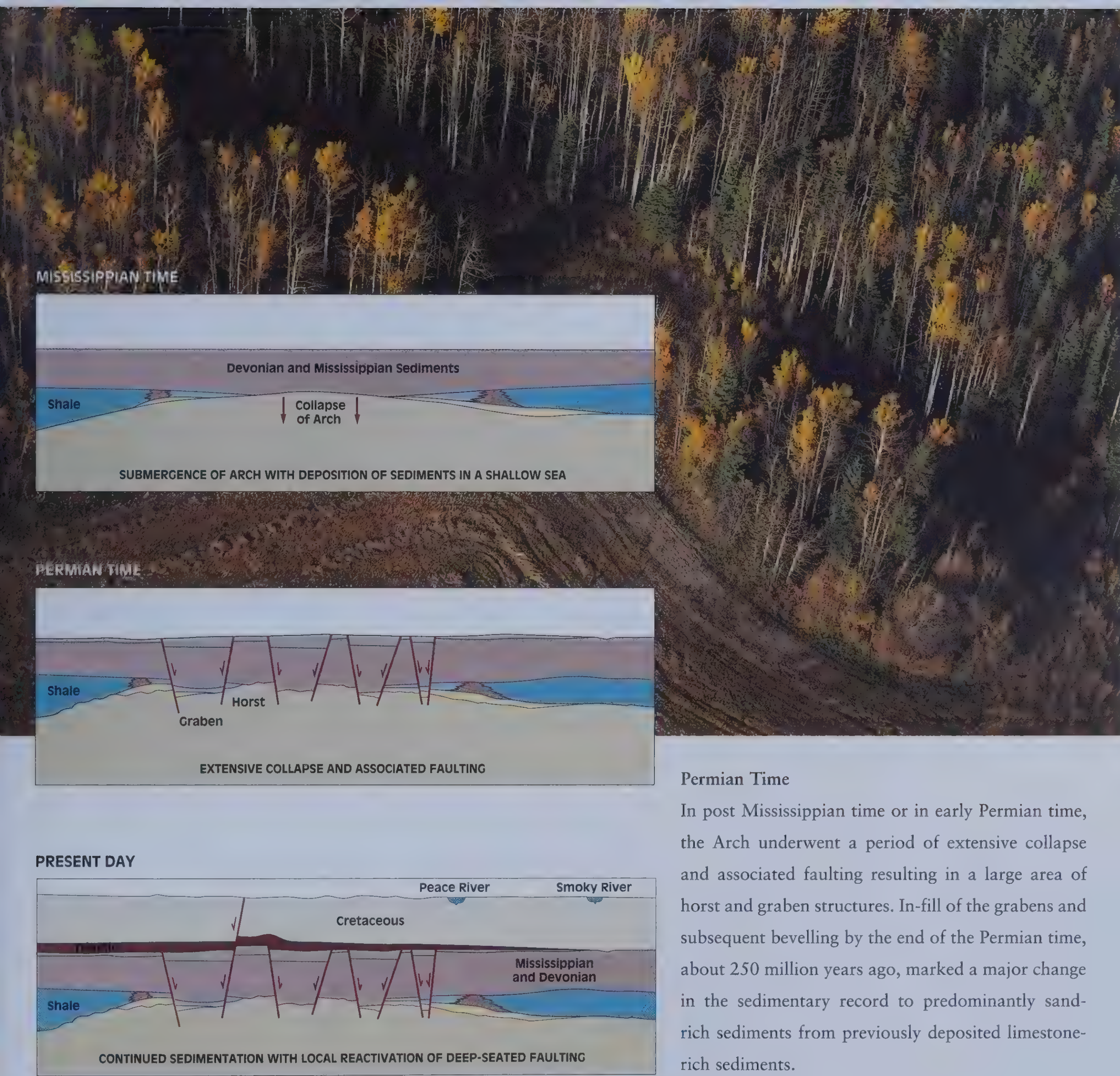


GEOLOGIC HISTORY

Geologically, the Peace River Arch is dominated by what is often referred to as the ancient Peace River land mass. Approximately 350 million years ago, in Devonian time, a granitic island or arch was located just west of where the Town of Fairview is today. This island was made up of crystalline Precambrian rocks like those exposed at the surface today on the Great Canadian Shield in the Northwest Territories, Northern Saskatchewan, Manitoba and much of Ontario and Quebec.

Devonian Time

The sedimentary history of the Peace River Arch Area essentially started in Devonian time as the ancient land mass eroded, depositing sands in the shallow sea surrounding the island. Contemporaneously, fringing carbonate reefs grew in a shallow tropical sea, much the same as is happening in the Caribbean and offshore Australia today. Early oil and gas exploration efforts targeted hydrocarbon traps in these reefs in the late 1940s and early 1950s. Discoveries were made at Eaglesham and Normandville on the south side of the Arch and Worsley on the north side.



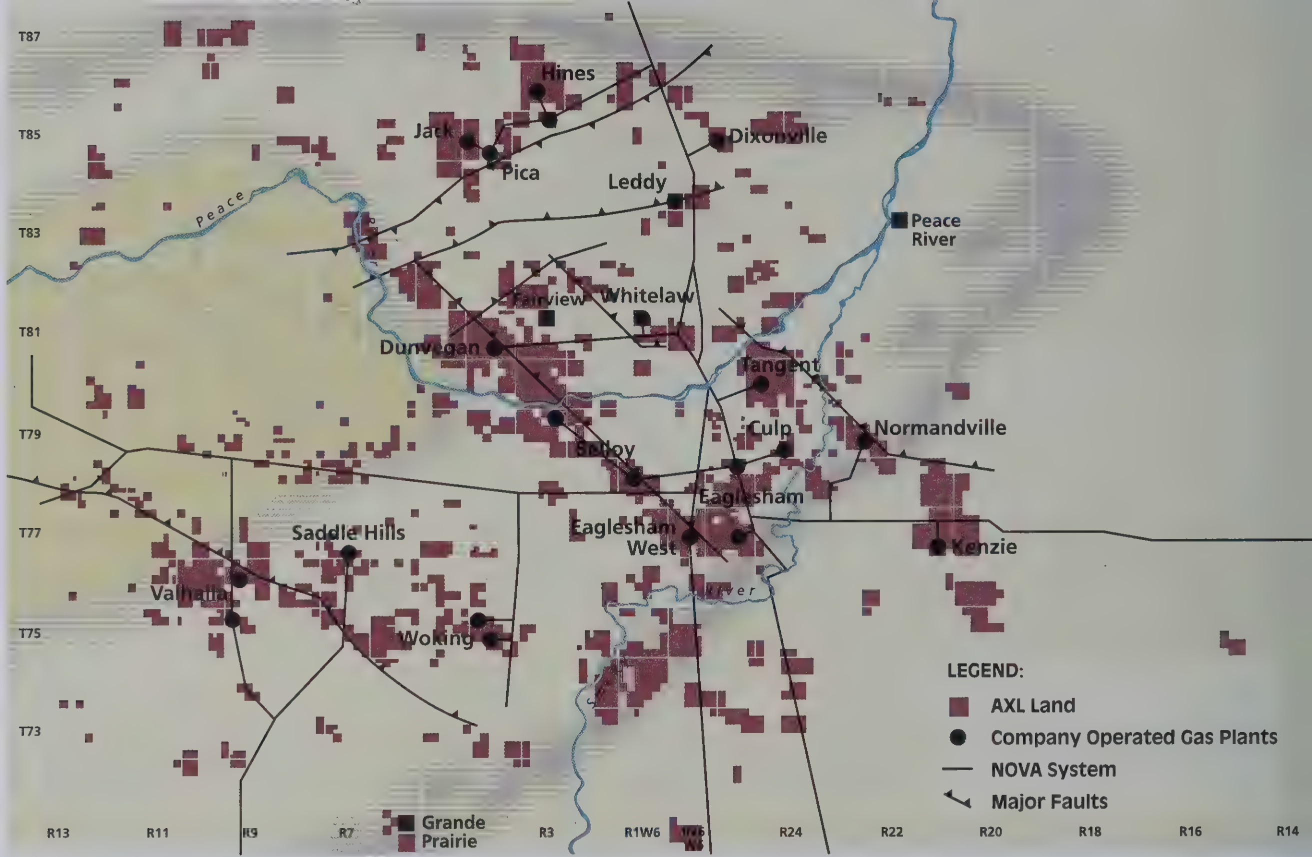
Mississippian Time

Beginning at the end of Devonian time and continuing throughout the Mississippian period, the ancient Peace River land mass gradually subsided. The area was inundated by shallow-water tropical seas. The resulting limestone-rich sediments were uniformly laid down over vast areas without much lateral porosity variation. Later faulting would be required to form traps for hydrocarbons in these sediments.

Permian Time

In post Mississippian time or in early Permian time, the Arch underwent a period of extensive collapse and associated faulting resulting in a large area of horst and graben structures. In-fill of the grabens and subsequent bevelling by the end of the Permian time, about 250 million years ago, marked a major change in the sedimentary record to predominantly sand-rich sediments from previously deposited limestone-rich sediments.

Hydrocarbon traps associated with the fault systems in the Mississippian sediments were formed. The Mississippian Debolt formation, approximately 850 feet thick in the area, contains many zones of porosity in limestones and dolomites. Gas trapped in these porous zones on the upthrown side of faults makes up the bulk of Anderson Exploration's gas reserves in the area, primarily at Dunvegan, Belloy, West Eaglesham and Normandville.



Present Day

From the end of Permian time to the present day, sand-rich sedimentation blanketed the area. For the most part, earlier structures were inactive. The Triassic and Cretaceous age sediments are therefore generally uninterrupted by older faulting. Locally, however, deep seated faults were re-activated at different times. Hydrocarbon traps within these sediments occur in a variety of types. Stratigraphic traps where porous sandstones are encased in non-permeable shales are common. Structural traps formed by drape over deep seated faulting or underlying highs are prevalent as well. Recent discoveries at Pica and Jack are examples of these types of traps.

EARLY EXPLORATION HISTORY

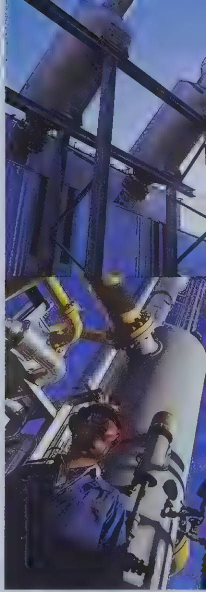
The first well on record in the Peace River Arch Area of Alberta was drilled in 1916 to a depth of 1,136 feet in the Peace River Valley in Section 31, Township 85, Range 20, W5M about 12 miles north of the Peace River townsite. Several shallow wells were drilled in that vicinity in the late teens and early twenties. A number of the wells found gas in shallow Cretaceous sands. Some of them blew gas and water into the atmosphere for a number of years after abandonment. The first well to encounter Precambrian rocks in the subsurface was the Imperial Oil Spirit River No. 1 at 12-20-78-6W6M, confirming the existence of the ancient Peace River land mass.

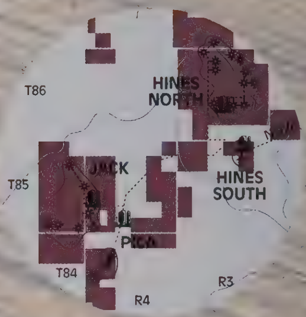
The well, spudded in July 1948, encountered granite at a depth of 9,775 feet and was abandoned in April 1949. The first discovery in the area considered to be commercial was the Pouce Coupe field discovered at a depth of 2,200 feet by the 9-24-80-13W6M well drilled in August 1948. The field went on production in 1950 and the 9-24 discovery well, which still produces, has produced 44.5 billion cubic feet of gas.

ANDERSON EXPLORATION IN THE AREA

Anderson Exploration first became interested in the Peace River Arch Area of Alberta as an exploration area in 1968. The Company's first actual involvement in the area was in August, 1969 when 8,320 acres of leases and two old shut-in gas wells drilled in 1951 were purchased from a major oil company at Belloy. In September, 1969 one shallow shut-in gas well drilled in 1951 and 3,200 acres of leases were purchased from a group of four companies where the Dunvegan Field is now located. The Company drilled its first well in the area, Belloy 11-18-78-1W6M, in October 1969. On September 18, 1970, Anderson Exploration ran a drillstem test in the discovery well at 6-29-80-3W6M, that proved the existence of gas in the Mississippian Debolt formation at Dunvegan. Over the years, the Company has drilled approximately 750 wells in the area and produces hydrocarbons at depths ranging from 1,000 feet to 8,000 feet. Oil and gas are found in multiple zones. Anderson Exploration produces hydrocarbons from over 70 separate zones in the vertical geologic column. Interestingly, Anderson Exploration today owns the majority interest and operates three of the early fields discovered in the area by others: Normandville (1949), Belloy (1951) and Eaglesham (1959).

In January 1973, the Dunvegan Field, with original recoverable reserves in excess of one trillion cubic feet of gas, was placed on production. In May 1994, cumulative production at Dunvegan reached 750 billion cubic feet of gas. In the Peace River Arch Area today, Anderson Exploration operates 22 gas plants and numerous oil facilities. Company production in the area during 1994 averaged 4,100 barrels of oil and NGL and 109 million cubic feet of gas per day. Production in the area in 1995 will be about 5,000 barrels of oil and NGL and 175 million cubic feet of gas per day. The Company's proven plus probable reserves in the area are 23.3 million barrels of oil and NGL and 818 billion cubic feet of gas. Anderson Exploration continues to conduct an active exploration and development program in the area. Through these efforts, we continue to unravel the geologic complexities of the area and develop new exploration plays. The Company will be involved in the area for many years to come.



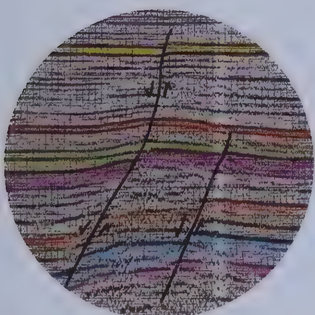


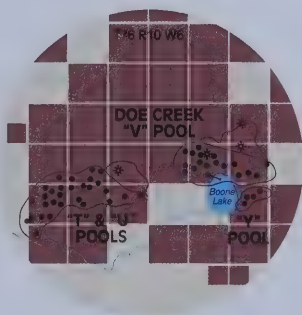
HINES CREEK AREA

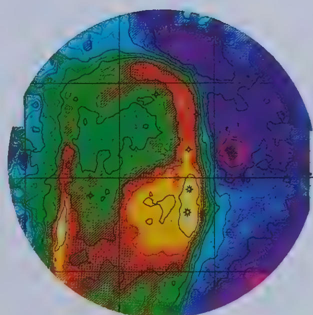
Anderson Exploration made a gas discovery at Hines South in the Peace River Arch Area in 1972. In the early 1980s, Hines North was discovered, drilled and placed on production. In the past two years, gas discoveries were made and developed at Jack and Pica. In 1994, new gas plant facilities were installed at Jack and Pica. In this 100 percent working interest area, the Company's gas production will be about 40 million cubic feet per day in 1995.

Operationally, 1994 was a very busy year. Capital expenditures were higher than ever before to support record levels of drilling and construction activity. The operational accomplishments of 1994 will serve the Company well in 1995 and beyond.

OPERATIONS REVIEW







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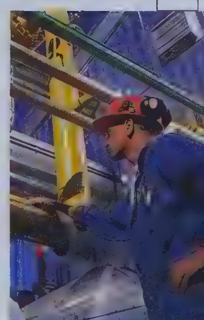


NEW GAS DISCOVERY

On lands acquired in the Peace River Arch Area as a result of a 2-D seismic program, a new gas discovery has been made in early 1995. Shown is a 2-D seismic line through the discovery well location. The location of the normal faults in the subsurface is identified by the seismic. In this case, the discovery well was drilled between the faults. Gas was encountered in four zones which tested at an aggregate of 9 million cubic feet of gas per day.

VALHALLA DOE CREEK OIL

In July 1992, Anderson Exploration discovered the Doe Creek "V" Pool at Valhalla on lands acquired through the acquisition of Columbia Gas. The field has been developed and unitized. Waterflood injection started on September 22, 1994. The Company operates the "V" Pool with a 51 percent interest and owns interests in the "T", "U" and "Y" Pools. Company production from the Doe Creek at Valhalla will be about 1,700 barrels of oil per day in 1995.

LEDUC REEF ON 3-D SEISMIC

In 1994, Anderson Exploration conducted a 3-D seismic program covering a small portion of the fringing Leduc D-3 reef in the Peace River Arch Area. The mapping derived from the 3-D data clearly shows the existence and location of the reef. In this case, the reef is not hydrocarbon productive; however, gas has been discovered in several shallow zones which drape over the reef. The Company makes extensive use of 3-D seismic in its exploration and development work.

LAND

Anderson Exploration's undeveloped land inventory in the western provinces at year end totalled 985,000 net acres, 96 percent of which is located in Alberta. The Company's average working interest in this undeveloped land base at year end was 71 percent versus 65 percent last year. Gross undeveloped acreage in the western provinces increased 16 percent and net acreage increased 27 percent. Anderson Exploration was very active at Crown land sales in 1994 in order to further its exploration and development efforts. Expenditures at these sales were $19.5 million, approximately four times 1993 expenditures. The Company's average working interest in lands acquired at Crown sales was 95 percent.

Industry activity at Crown sales was intense and increased substantially in 1994. For example, in the Province of Alberta in the year ending September 30, 1994, a total bonus amount of $910 million was paid by industry for 11.1 million acres compared to $367 million for 5.9 million acres in the prior year.

SUMMARY OF UNDEVELOPED WORKING INTEREST LAND HOLDINGS

at September 30	1994		1993	
Thousands of Acres	Gross	Net	Gross	Net
Western Provinces	1,379	985	1,189	778
Other	222	14	222	14
Total	1,601	999	1,411	792

CROWN SALE LAND ACQUISITIONS

	1994	1993
Expenditures ($000s)	$ 19,453	$ 5,052
Net Acres Acquired	285,573	122,546
Price Per Acre	$ 68	$ 41

EXPLORATION

During 1994, Anderson Exploration conducted a high level of exploration activity. The Company spent $17.5 million on seismic and $33 million on exploratory drilling and completions for total exploration expenditures in 1994 of $50.5 million, up from $18.3 million in 1993. Anderson Exploration acquired 1,606 line miles of 2D seismic and 82 square miles of 3D seismic in Company operated programs in 1994.

Exploration activity was generally concentrated in the Company's traditional areas of operations: the Peace River Arch in northwestern Alberta and in eastern Alberta. In both areas, Anderson Exploration controls an infrastructure of gas processing facilities. Notable among the year's exploration achievements are several shallow gas discoveries in east-central Alberta, the ongoing successful exploration at Jack, near Hines Creek, and exploration of a downthrown fault block at Dunvegan in the Peace River Arch area. The newly discovered, 100 percent owned, Jack field is now on production at 12 million cubic feet per day. Budgeted exploration expenditures for 1995 are $43 million.

DRILLING ACTIVITY

Nineteen ninety-four was a record year for drilling activity. During the year, the Company participated in the drilling of 225 wells versus 157 in 1993. The average working interest in the wells was 76 percent versus 57 percent in 1993. The number of net gas wells completed increased two and one-half times over 1993 as gas exploration was increased and development of new gas deliverability accelerated.

Expenditures for the drilling and completion of wells in 1994 were $79.7 million. Anderson Exploration expects that 1995 will also be a very active year for drilling with the 1995 totals likely to approach or exceed 1994 totals.

DRILLING ACTIVITY

	1994		1993	
	Gross	Net	Gross	Net
Gas	130	106	52	42
Oil	62	36	81	32
Dry	33	30	24	16
Total	225	172	157	90

Table does not include 15 gross wells (0.02 net) in 1993 and 14 gross wells (0.02 net) in 1994 drilled in a major oil unit where the Company has a small working interest and 5 gross (1.7 net) service wells drilled in 1994.

CONSTRUCTION ACTIVITY

In 1994, Anderson Exploration spent $51.5 million installing field production facilities versus $19.2 million in 1993. Most of these expenditures were on gas production facilities. In fiscal 1993, gas supply and demand in North America came into balance and Anderson Exploration experienced its first average gas price increase after seven consecutive years of decline. During that year, a program involving a number of gas development projects was launched with a view toward increasing the Company's gas delivery capacity. At the beginning of fiscal 1994, the Company was capable of delivering about 190 million cubic feet per day. In fiscal 1994, Anderson Exploration completed 20 gas development projects which collectively added approximately 90 million cubic feet per day of delivery capability. In the first quarter of 1995, an additional 11 projects have been or will be completed, adding an additional 52 million cubic feet per day of capacity. Anderson Exploration will thus achieve its previously stated objective of having at least 300 million cubic feet per day of delivery capacity by January 1, 1995. The Company has budgeted expenditures of $54 million for production facilities in 1995, again largely for gas development projects.

GAS DEVELOPMENT PROJECTS

Area	Number of Projects	Added Capacity Mcf/d
Fiscal 1994		
Peace River	13	68,000
Eastern Alberta	5	20,000
Other	2	2,000
Subtotal	20	90,000
First Quarter, 1995		
Peace River	8	40,000
Eastern Alberta	3	12,000
Subtotal	11	52,000
Total	31	142,000

PRODUCTION

Natural gas production increased 39 percent to 222 million cubic feet per day from 160 million in 1993. Three new properties, Blackfoot and Kenilworth in eastern Alberta and Valhalla on the Peace River Arch appear in the Company's top ten gas properties in 1994 as a result of the completion of new plant facilities. These properties produced an aggregate average of 29.2 million cubic feet per day. Total liquids production also increased 39 percent in 1994 to 8,267 barrels per day. Oil production increased 37 percent to 6,533 barrels per day, largely as a result of the

Amax acquisition. Two Amax properties, Innes and Provost, were added to the Company's top ten oil properties in 1994. The Amax acquisition also substantially increased the Company's interest and production in the Hayter property where Anderson Exploration assumed operatorship. Oil production at Hayter and Innes will increase further in 1995 as a result of development work.

DAILY AVERAGE PRODUCTION

	1994	1993
Crude Oil (Bbls/d)		
Valhalla	1,178	839
Hayter	642	253
Genesee-Highvale	634	721
Eaglesham-Culp	401	518
Innes	382	0
Provost	376	0
Normandville	353	516
Manyberries	246	255
Red Jacket	217	235
Tangent	216	366
Other and Royalty	1,888	1,072
Total	6,533	4,775
Natural Gas (Mcf/d)		
Dunvegan	42,266	43,833
Wildmere	18,346	19,200
Kirby	17,562	14,130
Valhalla	14,205	3,467
Kotaneelee	12,872	13,355
Pica/Jack	11,234	4,179
Hines Creek	10,766	10,950
Belloy	10,438	9,901
Blackfoot	8,680	0
Kenilworth	6,487	0
Other and Royalty	68,905	40,856
Total	221,761	159,871

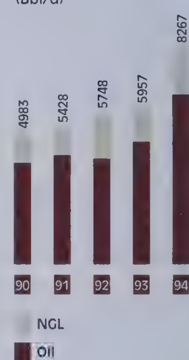
RESERVES

In 1994, Anderson Exploration's reserve additions were accomplished through the use of the drill bit, property acquisitions and the acquisition of Amax, a corporate acquisition. Before revisions and net of dispositions, the Company added 204 billion cubic feet of proven gas reserves and 12.1 million barrels of oil and NGL. Proven plus probable additions were 321 billion cubic feet of gas and 17.2 million barrels of liquids.

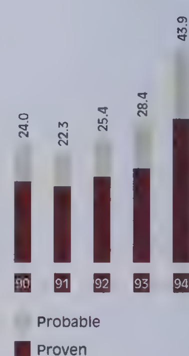
In 1994, the Company continued to be active in the property acquisition and disposition market. During the year, Anderson Exploration completed 39 property acquisition transactions at a total cost of $15.4 million. Proven reserves were acquired at an average cost of $5.02 per barrel of oil equivalent and $3.18 for proven plus probable. The Company sold 55 minor properties in 16 separate transactions for proceeds of $6.7 million. The selective acquisition of properties will continue in 1995. Anderson Exploration has now sold essentially all of the minor properties intended for sale out of the Amax and Columbia corporate acquisitions.

The acquisition of Amax was completed early in the fiscal year at a cost of $70 million. Anderson Exploration already had working interests in three of the major Amax properties, Hayter, Bellis and Valhalla, which comprise 28 percent of the acquired reserves. Another property, Sinclair, adjacent to current operations, brings the total to 42 percent of the acquired reserves. The Company has assumed operatorship of three of these four properties. On a barrel equivalent basis, the proven reserves acquired in the Amax transaction replaced 105 percent of 1994 production.

DAILY OIL & NGL PRODUCTION
(Bbl/d)



OIL & NGL RESERVES
(Mmbbl)



Gas reserve additions in 1994 by drilling and acquisitions, net of dispositions and before revisions, replaced 260 percent of 1994 gas sales on a proven basis and 409 percent on a proven plus probable basis. Liquid reserve additions on the same basis were 399 percent and 569 percent of production, respectively.

Year-end 1994 liquids reserves were 51 and 55 percent higher than year-end fiscal 1993 on a proven and proven plus probable basis, respectively. The Company's oil and NGL reserve life indices are 9.7 years on a proven basis and 14.5 years on a proven plus probable basis. Proven year-end gas reserves of Anderson Exploration are up 19 percent on a proven basis and 18 percent on a proven plus probable basis from 1993. The gas reserve life indices are 11.5 years for proven and 17.6 years for proven plus probable. As expected these indices declined in 1994 as gas production was accelerated due to the upturn in natural gas prices.

Anderson Exploration's reserves are ordinarily estimated by Company engineering personnel with the starting base being the most recent independent engineering evaluation. Due to the expense involved, independent evaluations are not conducted on an annual basis. The latest independent evaluations conducted on the Anderson Exploration properties were in 1992.

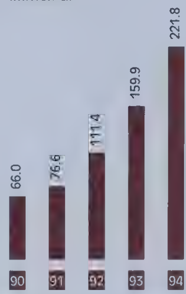
1994 RESERVE ADDITIONS AND REVISIONS

	Proven	Probable	Total
Natural Gas (Bcf)			
Drilling	157.4	100.6	258.0
Property Acquisitions	18.1	9.1	27.2
Property Dispositions	(10.6)	(3.5)	(14.1)
Amax Acquisition	39.3	10.6	49.9
Total Additions	204.2	116.8	321.0
Revisions	19.4	(45.7)	(26.3)
Total	223.6	71.1	294.7
Crude Oil & Natural Gas Liquids (Mbbls)			
Drilling	3,161	1,947	5,108
Property Acquisitions	1,256	866	2,122
Property Dispositions	(133)	(22)	(155)
Amax Acquisition	7,766	2,324	10,090
Total Additions	12,050	5,115	17,165
Revisions	939	382	1,321
Total	12,989	5,497	18,486

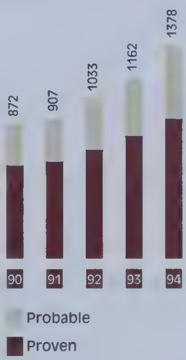
YEAR-END RESERVES

	Proven	Probable	Total
Natural Gas (Bcf)			
At September 30, 1993	754.4	407.2	1,161.6
1994 Additions and Revisions	223.6	71.1	294.7
1994 Sales	(78.5)	0.0	(78.5)
At September 30, 1994	899.5	478.3	1,377.8
Crude Oil & Natural Gas Liquids (Mbbls)			
At September 30, 1993	19,388	9,036	28,424
1994 Additions and Revisions	12,989	5,497	18,486
1994 Production	(3,017)	0	(3,017)
At September 30, 1994	29,360	14,533	43,893

DAILY NATURAL GAS PRODUCTION
(Mmcf/d)



NATURAL GAS RESERVES
(Bcf)



MARKETING & PRODUCT PRICES

The Company's 1994 fiscal year was a strong year for the upstream Canadian natural gas industry. Prices received by Anderson Exploration increased for the second consecutive year after seven consecutive years of decline commencing in 1985. The heating season was colder than normal in the central and eastern portions of North America for the first time in several years, resulting in strong demand for Canadian gas. Recently completed pipeline construction and expansion projects allowed improved access by Canadian gas to Eastern Canadian and United States markets.

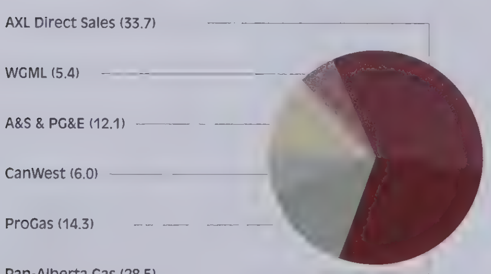
Anderson Exploration's average gas price increased 19 percent to $1.96 per thousand cubic feet in 1994. Gas production volumes increased 39 percent. The Company expects its volumes to increase in 1995 but the average price will probably not increase and, in fact, may even decrease.

Anderson Exploration has been a major supplier of natural gas to the Bay Area in northern California since 1973 through its contracts with Alberta and Southern Gas Co. Ltd. (A&S), a supply aggregator owned by Pacific Gas and Electric Company (PG&E) of San Francisco. This relationship ended on November 1, 1993. As compensation for the termination of its long-term gas sales contracts with A&S, Anderson Exploration received $25 million in settlement payments. The Company continued to sell gas to the California market in 1994 through the sale of 12.1 percent of its 1994 volumes to A&S and PG&E. This compares to 31 percent sold to A&S in 1993. At year end, no gas was being sold to A&S and PG&E.

OIL AND NATURAL GAS LIQUIDS

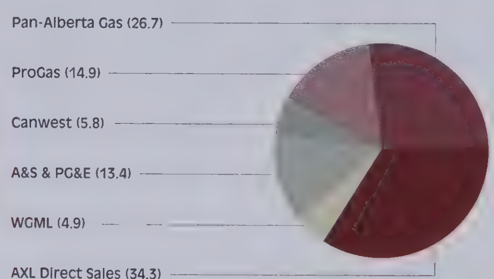
Anderson Exploration sells the majority of its crude oil to two purchasers under short-term contracts. The price received is based on daily posted prices at Edmonton, adjusted for crude quality and transportation, which, in turn, is based on the price of West Texas Intermediate (WTI) crude oil as traded on the New York Mercantile Exchange.

1994 GAS SALES DISTRIBUTION % OF VOLUME



Total Gas Sales = 78.5 Bcf

1994 REVENUE DISTRIBUTION % OF $



Gross Gas Revenue = $153.9 Million

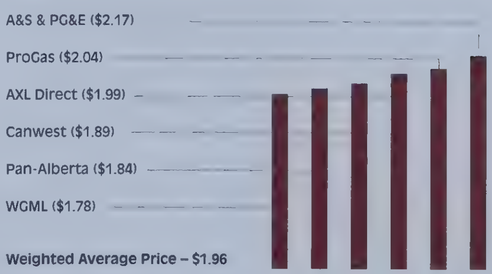
Oil prices were volatile in fiscal 1994, varying from a low of $14.55 per barrel in January to $23.03 in July. The Company's average crude oil price declined from $19.81 per barrel in 1993 to $18.34 per barrel in 1994. Budgeting for 1995 as it relates to liquids prices has been based on a field price of approximately $20 per barrel for Anderson Exploration's crude oil mix. The Company now sells virtually all NGL production to two buyers under two-year arrangements negotiated in 1993. The agreements provide for fixed deductions and market sensitive pricing. NGL have their own distinct market and prices react differently than oil prices. Condensate prices decreased seven percent from 1993 to average $18.88 per barrel in 1994. LPG prices averaged $11.26 per barrel in 1994, down 14 percent from 1993.

ANDERSON EXPLORATION
HISTORICAL AVERAGE PRICES

Fiscal Year	Oil $ per Barrel	Gas $ per MCF
1985	31.33	2.93
1986	24.22	2.56
1987	20.41	2.15
1988	17.23	1.92
1989	17.27	1.96
1990	21.47	1.93
1991	24.63	1.68
1992	20.16	1.41
1993	19.81	1.65
1994	**18.34**	**1.96**

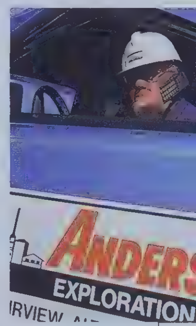
Gas prices prior to 1994 are calculated on the basis of production whereas the 1994 price is related to actual sales.

PRICE
($/Mcf)



In 1994, Anderson Exploration was successful in increasing both liquids and gas production to record levels. As a result, cash flow from operations increased 63 percent and net earnings increased 61 percent from 1993. Costs on a barrel equivalent basis were maintained at low levels.

MANAGEMENT'S DISCUSSION & ANALYSIS



DERIVATION OF CASH FLOW AND NET EARNINGS

To derive cash flow from operations and net earnings in the following review, the components of revenue and expense are expressed on a barrel equivalent basis, converting gas production volumes to barrels at 10,000 cubic feet per barrel. This is a commonly used conversion ratio in the Canadian oil and gas industry, but it is not necessarily reflective of relative energy content or value. In this review, the barrel equivalent values for revenue and expense items are based on production volumes rather than actual sales volumes. In 1994, actual sales volumes on a barrel equivalent basis were 97.8 percent of production volumes.

Revenue

Gross revenue from oil and gas sales increased 53 percent in 1994 to $209.0 million from $136.6 in 1993 due to the combination of a 39 percent production increase and a 10 percent product price increase, both on a barrel equivalent basis. Gas production increased 39 percent to 222 million cubic feet per day and total liquids production increased 39 percent to 8,267 barrels per day. The Company's average crude oil price decreased to $18.34 per barrel from $19.81, the condensate price decreased to $18.88 per barrel from $20.24 and the LPG mix price declined to $11.26 per barrel from $13.10. The Company's average gas price increased to $1.96 from $1.65 per thousand cubic feet.

On a barrel equivalent basis, using production volumes, oil and gas revenue increased from $17.05 to $18.81 per barrel of equivalent production. Gross oil revenue accounted for 21 percent of total revenue, down from 25 percent in 1993. NGL production made up four percent of total revenue versus five percent in 1993. Gas revenue accounted for 75 percent of total revenue in 1994 as opposed to 70 percent due to price increases.

On November 1, 1993 the Company received a settlement payment of $25 million as compensation for termination of long-term gas sales contracts. The amount is being recognized as revenue over the life of the reserves associated with the terminated contracts. In 1994 $3.0 million was included in oil and gas revenue.

Royalties

Royalties paid after deduction of the Alberta Royalty Tax Credit (ARTC) increased 64 percent to $42.9 million from $26.1 million, due primarily to higher production rates. The reduction of royalties as a result of the ARTC was $2.2 million in 1994 compared to $1.8 million in 1993. Anderson Exploration's average royalty rate, after the ARTC deduction, in 1994 was 20.5 percent as compared to 19.1 percent in 1993. During 1993 the Company benefited to a greater extent from royalty-free periods on new oil wells than in 1994.

On a barrel equivalent basis, royalties increased to $3.86 per barrel from $3.26 due primarily to higher product prices. Royalty rates, particularly in Alberta, are producing-rate sensitive on a per well basis and are also price sensitive. A significant portion of Anderson Exploration's gas production is classified as "old" gas which attracts a higher royalty rate. As the share of gas production coming from "new" gas grows, average royalty rates on gas will tend to decrease. On balance, royalties on a barrel equivalent basis should remain relatively stable in 1995.

Operating Expense

Operating expense increased 44 percent from $24.4 to $35.2 million, due to more oil production, new properties coming on stream and higher gas production rates. On a barrel equivalent basis, operating expense increased four percent to $3.17 from $3.05 in 1993.

General and Administrative Expense

As anticipated, total general and administrative costs increased in 1994. The increase totalled 29 percent to $8.0 million from $6.2. The increase is a result of staff and office expansion associated with increased production and field activity. General and administrative expense on a barrel equivalent basis was $0.72 compared to $0.77 in 1993, a decrease of six percent. This expense is recorded net of overhead recovered by the Company as operator of producing properties and capital projects. Recoveries totalled $4.4 million in 1994. Anderson Exploration's general and administrative expense on a unit basis is among the lowest in the industry. The Company does not capitalize any general and administrative expense. Total general and administrative costs will increase somewhat in 1995. On a barrel equivalent basis, however, these costs will be maintained at or near the low levels of previous years.

Net Financing Expense

Interest expense, net of interest and other income, was $8.2 million in the year compared to $9.9 million in 1993. Average debt levels and interest rates in 1994 were lower than in 1993. Barrel equivalent net financing expense was $0.74, compared to $1.23 in 1993. The Company does not capitalize any interest expense.

Future Site Restoration

The Company provided $3.4 million for future site restoration. On a barrel equivalent basis, this charge amounts to $0.30, of which $0.05 was incurred currently and the remaining $0.25 was recorded as a non-cash charge.

Current Income Tax

The Company is subject to the large corporations tax which was the major component of current tax expense in 1994. Current income tax expense in 1994 was $1.9 million compared to $0.9 million in 1993. The barrel equivalent current tax in 1994 was $0.17 versus $0.12 in 1993. At year end, the Company had unused tax pools of approximately $377 million. A portion of these pools is dedicated to shelter income from the properties acquired in the Columbia Gas and Amax acquisitions in 1992 and 1994 respectively. Other than the Large Corporations Tax, the Company does not expect to be currently taxable in 1995; however, the amount of current tax will depend on product prices and expenditures.

Cash Flow

Cash flow from operations increased 63 percent in 1994 to $112.2 million versus $68.8 in 1993. Cash flow from operations per share was $2.08 compared to $1.52 per share in 1993. The Company's cash flow is discretionary and available for capital programs and reduction of long-term obligations. Barrel equivalent cash flow from operations was $10.10 versus $8.59 in 1993.

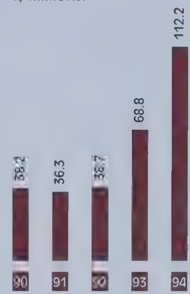
CASH FLOW FROM OPERATIONS

$ per Barrel Equivalent	1994	1993
Gross Revenue	$ 18.81	$ 17.05
Royalties	3.86	3.26
Operating	3.17	3.05
General and Administrative	0.72	0.77
Net Financing	0.74	1.23
Site Restoration	0.05	0.03
Current Income Tax	0.17	0.12
Cash Flow from Operations	$ 10.10	$ 8.59

Depletion and Depreciation

Depletion and depreciation provided on the unit-of-production method is based on total proven reserves with the conversion of oil to gas using their relative energy content. In 1994, production grew by 39 percent from 21,943 to 30,443 barrels of oil equivalent per day while year-end proven reserves increased 26 percent to 119.3 million equivalent barrels. The provision for depletion and depreciation increased by $24.0 million or 56 percent due to higher production levels and a higher depletable cost base. Depletion charges on a barrel equivalent basis increased 13 percent to $6.00 compared to $5.33 in 1993, as recent reserve addition costs have increased over historical costs.

CASH FLOW FROM OPERATIONS
($ Millions)



Deferred Income Tax

Deferred income taxes were $18.6 million compared to $9.4 million in 1993. On a barrel equivalent basis, deferred taxes increased to $1.67 from $1.17 as earnings before income taxes increased on a barrel equivalent basis.

Total income taxes were $20.5 million compared to $10.3 in 1993. The total tax provision as a percentage of pre-tax income was 45.9 percent versus 40.7 in 1993. The Columbia Gas acquisition in 1992 provided the Company with significant tax pools which, combined with increased expenditures in 1994, provided the Company with sufficient deductions to eliminate current taxes related to income.

Net Earnings

Net earnings increased 61 percent in 1994 to $24.2 million versus $15.0 in 1993. On a per share basis, 1994 earnings were $0.45 compared to $0.33. On a barrel equivalent basis, earnings were $2.18 in 1994 versus $1.87 in 1993.

NET EARNINGS

$ per Barrel Equivalent	1994	1993
Cash Flow from Operations	$ 10.10	$ 8.59
Depletion and Depreciation	6.00	5.33
Future Site Restoration	0.25	0.22
Deferred Income Taxes	1.67	1.17
Net Earnings	$ 2.18	$ 1.87

CAPITAL EXPENDITURES

Anderson Exploration's gross additions to property, plant and equipment totalled $185.6 million in 1994, exclusive of the costs of the Amax acquisition, versus $87.8 million in 1993. Net capital expenditures were $178.9 million after deducting $6.7 million of proceeds from the disposition of properties. Gross capital expenditures for 1995 are currently budgeted at $196 million.

FINANCIAL RESOURCES AND LIQUIDITY

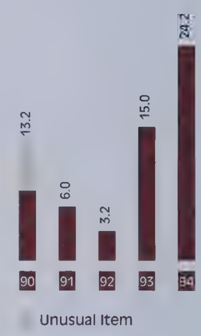
During 1994, net capital expenditures exceeded cash flow from operations by $66.7 million. During the year, the Company issued common shares for total proceeds of $108.4 million. Included was an equity issue of 7.0 million common shares at $15.50 per share for net proceeds of $104 million after underwriting fees. These proceeds were used to reduce bank debt and fund capital expenditures. During 1994, the Company's long-term obligations were unchanged.

At year end, Anderson Exploration had unused lines of credit of approximately $104 million under the terms of the Company's banking arrangements and had negative working capital of $19.9 million. No debt repayments are required in 1995.

The purchase price of Amax of $70 million was funded by existing bank lines of credit. The $25 million settlement payment in consideration for the termination of long-term gas sales contracts was applied to reduce bank indebtedness.

Cash flow from operations for the year covered interest expense 14.4 times versus 7.8 times in 1993. Long-term debt at year end was 0.8 times 1994 cash flow from operations versus 1.3 in 1993. Anderson Exploration has the resources to continue an active exploration, development and acquisition program.

NET EARNINGS
($ Millions)



ALLOCATION OF CAPITAL INVESTMENT

$ Millions	1994*	1993
Exploration Drilling and Completion	$ 33.0	$ 14.4
Seismic	17.5	3.9
	50.5	18.3
Land Bonus and Retention and Property Acquisition	36.9	26.7
Development Drilling, Completion and Recompletion	46.7	23.6
Facilities	51.5	19.2
	135.1	69.5
Gross Capital Investment	185.6	87.8
Property Disposition Proceeds	(6.7)	(6.2)
Net Capital Investment	$ 178.9	$ 81.6

* Excluding the cost of the Amax acquisition.

SHARE INFORMATION

The Company's common shares were listed on The Toronto Stock Exchange on July 12, 1988. At September 30, 1994 there were 56,919,562 common shares outstanding. All common share data in this report reflect a two for one share split which occurred in 1994. During 1994, 7,000,000 common shares were issued at $15.50 per share. In addition, 545,376 shares were issued under the stock option and stock savings plans.

BUSINESS RISKS

Oil and gas exploration, production and marketing operations involve a number of business risks. They include the uncertainty of finding new reserves and the instability of commodity prices. These risks are compensated for by employing highly competent professional staff and utilizing equity and cash flow from operations to fund capital expenditures so that debt does not become a burden. The Company generates its exploration prospects internally. Extensive geological, geophysical, engineering and environmental analyses are performed before committing to the drilling of new prospects. Various procedures are utilized to ensure a suitable balance between risk and reward.

Historically, regulatory intervention and taxation have had a significant impact on the oil and natural gas industry. However, with the deregulation of the indus-

SHARE INFORMATION

	1990	1991	1992	1993	1994				
	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Year
High	$10	$9	$6 5/8	$17 1/2	$17 1/4	$18	$17 3/4	$17 7/8	$18
Low	$ 8 1/4	$5 1/4	$3 1/2	$ 5 3/4	$12 1/8	$14 1/2	$15 3/4	$14 5/8	$12 1/8
Close	$ 9 1/4	$5 5/8	$6 3/8	$16 1/2	$14 1/2	$17 1/8	$16 1/4	$15 3/8	$15 3/8
Volume (000)	2,948	4,114	13,354	45,814	8,198	9,983	6,384	6,771	31,336

try beginning in 1985, combined with stable taxation levels, there is currently a reasonable operating environment in Canada for financially healthy companies. The potential exists for this environment to change due to changes in taxation and energy policy.

The industry is subject to extensive regulations imposed by governments related to the protection of the environment. Environmental legislation in the Province of Alberta has undergone major revision and environmental standards and compliance are more stringent. The Company is committed to meeting its responsibilities to protect the environment wherever it operates and has instituted a series of controls and procedures with respect to environmental protection. It is anticipated that expenditures of both a capital and expense nature relating to the protection of the environment will increase.

BUSINESS PROSPECTS

Although there is substantial surplus in oil productive capacity in the world, the outlook for the Canadian oil producing industry is bright. Canada is essentially oil self-sufficient; however, the United States now imports over 50 percent of its oil requirements with little hope of substantially increasing its indigenous supplies. Past events in the Middle East illustrate the fragility of the supply of imported oil for North America and other importing regions of the world. This instability should place increased emphasis on security of supply for heavy consuming areas such as North America.

Although, in recent years, there has been a surplus of gas productive capacity in North America, supply and demand are now essentially in balance. During 1994, the price the Company received for its natural gas increased for the second consecutive year after annual decreases since 1985. This, coupled with the increasing environmental awareness of natural gas as a clean fuel which should promote increased demand, leads to the Company's expectation that the future of the Canadian natural gas producing industry is promising. Late in 1994 and into fiscal 1995 the producing industry is experiencing gas price weakness which may well prevail throughout 1995. On a barrel equivalent basis, 75 percent of Anderson Exploration's remaining proven reserves are natural gas.

OIL AND NATURAL GAS SALES REVENUE

Oil production volumes and revenues will depend on exploration and acquisition success and commodity prices. There are currently some volume restraints on the national oil transportation system which should be resolved with time. Natural gas production volumes are expected to increase in 1995. The Company's average price for gas increased in 1994. Based on recent futures prices in the United States on the New York Mercantile Exchange (NYMEX), there is the probability that the Company's average gas price will decrease in 1995. Anderson Exploration's current sensitivity to changes in average gas price is approximately \$0.15 per share in cash flow for each \$0.10 per thousand cubic feet.

Royalties

The Province of Alberta is simplifying its gas royalty regime, but the process is not expected to change the Company's actual royalty rates materially. Average royalty rates on natural gas production will tend to decrease as a higher proportion of production comes from "new" gas which attracts a lower royalty rate than "old" gas. As gas prices increase, gas royalty rates increase. On balance, total royalty rates should remain about the same in 1995 as in 1994.

Operating Expense

Total operating expense is expected to increase as new production is brought on stream. Operating expense, on a barrel of equivalent production basis, is expected to remain at or near the low level of 1994.

General and Administrative Expense

This expense has increased in the last year. While total general and administrative expense will increase in 1995, it is expected that such expense on a barrel of equivalent production basis will remain at or near the low level of 1994.

Financing Expense

The Company has increased its debt level somewhat in early 1995 to fund a $30 million property acquisition. Interest rates increased in 1994 and it appears likely that further increases will be seen in 1995. The Company has fixed the interest rate on $52.5 million of bank debt at 9.62 percent. Financing expense is expected to increase in 1995.

Depletion and Depreciation Expense

These expenses are affected by capital expenditures, production volumes and the amount of reserve additions in the year. It is anticipated that these charges will increase somewhat in 1995 due primarily to higher anticipated production.

Taxes

Corporate tax rates should be stable in 1995. The Goods and Services Tax does not affect capital or operating expenditures, but does create a significant administrative burden.

Management is responsible for the preparation of the consolidated financial statements and the consistent presentation of all other financial information in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner.

External auditors, appointed by the shareholders, have examined the consolidated financial statements. Their report is presented below. The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

J.C. Anderson

J.C. Anderson
Chairman & Chief Executive Officer
November 29, 1994

D.G. Scobie

David G. Scobie
Senior Vice President & Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Anderson Exploration Ltd. as at September 30, 1994 and 1993 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Calgary, Canada
November 23, 1994

September 30 (Stated in thousands of dollars)	1994	1993
ASSETS		
Current assets:		
Cash	$ 137	$ 671
Accounts receivable	25,244	22,486
Inventories, at cost	1,188	825
	26,569	23,982
Property, plant and equipment (note 3)	659,805	477,573
	$ 686,374	$ 501,555
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 43,466	$ 34,652
Income and other taxes payable	609	521
Deferred revenue	2,438	672
	46,513	35,845
Deferred revenue	19,555	–
Long-term debt (note 4)	90,972	91,000
Deferred income taxes	112,736	95,515
Deferred future site restoration costs	5,905	3,106
Shareholders' equity:		
Share capital (note 5)	338,152	227,715
Retained earnings	72,541	48,374
	410,693	276,089
Contingencies (note 8)		
Subsequent event (note 9)		
	$ 686,374	$ 501,555

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J.C. Anderson

Director

Director

Years ended September 30 (Stated in thousands of dollars, except per share data)	1994	1993
Revenue:		(note 10)
Oil and gas	$ 209,007	$ 136,593
Royalties, net of ARTC of $2,188 (1993 – $1,750)	(42,866)	(26,093)
Interest and other	162	198
	166,303	110,698
Expenses:		
Operating	35,197	24,446
Depletion and depreciation	66,700	42,700
General and administrative	8,005	6,200
Interest (including $7,107 on long-term debt; 1993 – $9,583)	8,370	10,072
Future site restoration	3,350	2,050
	121,622	85,468
Earnings before income taxes	44,681	25,230
Income taxes (note 7):		
Current	1,937	907
Deferred	18,577	9,358
	20,514	10,265
Net earnings	$ 24,167	$ 14,965
Earnings per common share (note 6):		
Basic	$ 0.45	$ 0.33
Fully diluted	0.44	0.33

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended September 30 (Stated in thousands of dollars)	1994	1993
Retained earnings, beginning of year	$ 48,374	$ 33,409
Net earnings	24,167	14,965
Retained earnings, end of year	$ 72,541	$ 48,374

See accompanying notes to consolidated financial statements.

Years ended September 30 (Stated in thousands of dollars, except per share data)	1994	1993
Cash provided by (used in):		
Operations:		
Net earnings	$ 24,167	$ 14,965
Add items not requiring working capital:		
Depletion and depreciation	66,700	42,700
Future site restoration	2,799	1,805
Deferred income taxes	18,577	9,358
Cash flow from operations	112,243	68,828
Increase in deferred revenue	21,993	–
Change in non-cash working capital related to operations	1,446	(1,509)
	135,682	67,319
Investments:		
Additions to property, plant and equipment	(185,630)	(87,835)
Proceeds on disposition of property, plant and equipment	6,702	6,243
Acquisition of Amax Petroleum of Canada Inc., net of cash acquired (note 2)	(69,995)	–
Change in non-cash working capital related to investments	5,717	15,897
	(243,206)	(65,695)
Financing:		
Decrease in deferred revenue	(1,422)	(3,540)
Repayment of long-term debt	(28)	(62,000)
Issue of common shares	108,440	64,792
	106,990	(748)
Increase (decrease) in cash	(534)	876
Cash (deficiency), beginning of year	671	(205)
Cash, end of year	$ 137	$ 671
Cash flow from operations per common share (note 6):		
Basic	$ 2.08	$ 1.52
Fully diluted	2.03	1.49
Change in non-cash working capital:		
Accounts receivable	$ (2,758)	$ (9,304)
Inventories	(363)	(449)
Accounts payable and accrued liabilities	8,814	24,303
Income and other taxes payable	88	(162)
Acquisition of non-cash working capital	1,382	–
	$ 7,163	$ 14,388

Cash (deficiency) includes cash plus current bank indebtedness. See accompanying notes to consolidated financial statements.

Years ended September 30, 1994 and 1993

Anderson Exploration Ltd. (the "Company") is engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in Western Canada.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The consolidated financial statements include the accounts of Anderson Exploration Ltd. and its subsidiaries, each of which is wholly owned.

(b) Joint interest operations:

A significant proportion of the Company's oil and gas exploration and production activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(c) Property, plant and equipment:

The Company follows the full cost method of accounting for petroleum and natural gas properties. Under this method, all costs relative to the exploration for and development of oil and gas reserves are capitalized into a single Canadian cost centre. Capitalized costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties and drilling of productive and non-productive wells. Proceeds received from minor disposals of properties are credited against such costs.

Depletion of petroleum and natural gas properties and depreciation of plant and production equipment are provided on the unit-of-production method based on total proven reserves before royalties as estimated by Company engineers. Petroleum product and reserves are converted to equivalent units of natural gas using their relative energy content. Other equipment is depreciated over the estimated useful life using the declining balance and straight-line methods at rates varying from 20% to 30% per annum.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the year end, plus the cost of unevaluated properties less management's estimate of impairment. The test also provides for future administrative overhead, financing costs, future site restoration costs and income taxes.

(d) Flow through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow through share arrangements are renounced to investors in accordance with tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(e) Deferred revenue:

On November 1, 1993, the Company received a settlement payment of $24,966,000 from Alberta and Southern Gas Co. Ltd. and Pacific Gas Transmission Company as compensation for the termination of long-term gas sales contracts. The amount received is being recognized as revenue over the life of the reserves associated with the terminated contracts.

(f) Future site restoration costs:

Provisions for future site restoration costs are made over the life of the Company's oil and gas properties using the unit-of-production method. Costs are based on engineering estimates considering current regulations, costs and industry standards. Actual expenditures incurred are applied against deferred future site restoration costs.

2. ACQUISITION OF AMAX PETROLEUM OF CANADA INC.:

On November 15, 1993, the Company acquired all of the issued and outstanding shares of Amax Petroleum of Canada Inc., a U.S. incorporated company with oil and gas properties located in Western Canada. The transaction has been accounted for by the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. Details of the acquisition are as follows:

Net assets acquired, at fair values (in thousands):		
	Cash	$ 827
	Non-cash current assets	3,351
	Property, plant and equipment	70,004
		74,182
Less:	Current liabilities	1,969
	Deferred credits	1,391
		3,360
		$ 70,822
Consideration given:		
	Cash	$ 70,822
	Less cash acquired	(827)
		$ 69,995

3. **PROPERTY, PLANT AND EQUIPMENT:**

(thousands)	1994	1993
Petroleum and natural gas properties, including exploration, development and equipment	$ 1,002,381	$ 753,449
Accumulated depletion and depreciation	(342,576)	(275,876)
	$ 659,805	$ 477,573

At September 30, 1994, petroleum and natural gas properties include $42,452,000 (1993 – $24,980,000) relating to unproved properties which have been excluded from depletion and depreciation calculations.

4. **LONG-TERM DEBT:**

	1994		1993	
	As at September 30 Balance Outstanding (thousands)	Interest Rate	As at September 30 Balance Outstanding (thousands)	Interest Rate
Term bank loan	$ 38,472	7.00%	$ 38,500	5.75%
Term bank loan and bankers' acceptances subject to swap agreements	52,500	9.62%	52,500	9.62%
Balance at end of year	$ 90,972		$ 91,000	

The Company's long-term debt has been advanced pursuant to a bank term credit facility in the amount of $175,000,000. In addition, the Company has current operating lines of credit of $20,000,000.

The long-term debt, which bears interest at the bank's prime lending rate or bankers' acceptance rates plus stamping fees, is secured by an assignment of accounts receivable and the Company's interest in certain petroleum and natural gas properties. Upon request by the bank, the Company will be obliged to repay the then outstanding debt in 28 equal quarterly instalments commencing 27 months after such notice is given. No notice had been given to September 30, 1994.

The Company has fixed the rate of interest on long-term debt totalling $52,500,000 through swap agreements at an average rate of 9.62%. These agreements mature at various dates ranging from March 6, 1997 to June 4, 1997.

5. SHARE CAPITAL:

Authorized:

Common shares: unlimited

Preferred shares: unlimited

Junior preferred shares, redeemable, participating: unlimited

Issued:

	1994		1993	
	Number of Shares	Amount (thousands)	Number of Shares	Amount (thousands)
Common shares:				
Balance at beginning of year	**49,374,186**	**$ 227,715**	41,409,188	$ 162,857
Issued for cash pursuant to a public offering, after deducting underwriters' fees and share issue expenses of $4,508,000 less applicable income tax benefits of $1,997,000	**7,000,000**	**105,989**	7,000,000	60,228
Issued for cash on exercise of stock options	**474,286**	**3,314**	522,420	2,544
Issued for cash under employee stock savings plan	**71,090**	**1,134**	72,318	709
Issued pursuant to flow through share agreements	–	–	370,260	1,377
Balance at end of year	**56,919,562**	**$ 338,152**	49,374,186	$ 227,715

On July 18, 1994, the shareholders approved a two-for-one stock split of the common shares. The number of shares and per share information presented in these consolidated financial statements have been adjusted to reflect this stock split.

The Company has authorized 4,000,000 common shares for issuance under its Employee Stock Option Plan. At September 30, 1994, options to purchase 2,113,758 common shares for a cash consideration of $4.19 to $16.81 per share were outstanding. The options are exercisable at various dates to 1999.

At September 30, 1994, 661,796 common shares were reserved for issuance under the Company's Employee Stock Savings Plan, issuable at market prices.

6. **PER SHARE AMOUNTS:**

Earnings per common share and cash flow from operations per common share are calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding at September 30, 1994 was 54,032,610 (1993 – 45,182,738). The fully diluted cash flow from operations per common share calculations include imputed interest of $1,066,000 (1993 – $783,000), calculated at a rate of 6% (1993 – 6.5%) on the proceeds from the exercise of stock options. These amounts are tax effected at a rate of 44.34% to calculate fully diluted earnings per common share.

7. **INCOME TAXES:**

The provision for income taxes differs from the result which would have been obtained by applying the combined Federal and Provincial income tax rate to earnings before income taxes. The difference results from the following items:

(thousands)	1994	1993
Earnings before income taxes	$ 44,681	$ 25,230
Combined Federal and Provincial income tax rate	44.34%	44.34%
Computed "expected" tax	19,812	11,187
Increase (decrease) in taxes resulting from:		
Royalties and other payments to provincial governments	17,214	9,826
Non-deductible depletion	4,324	3,057
Recognition of previously unrecognized tax benefits	(2,517)	(2,424)
Resource allowance	(16,833)	(10,704)
Earned depletion	(1,961)	(1,480)
Income tax rebates and credits	(1,431)	(206)
Large corporations tax	1,304	907
Other	602	102
Provision for income taxes	$ 20,514	$ 10,265

Property, plant and equipment with a net book value of $99,256,000 (1993 – $80,485,000) has no cost basis for income tax purposes.

As a result of a prior acquisition, tax deductions in excess of net book values are approximately $84,795,000 (1993 – $94,895,000), the tax benefits of which have not been recognized in the consolidated financial statements.

8. **CONTINGENCIES:**

Anderson Oil & Gas Inc., a 100% owned subsidiary of the Company, has been named as one of the defendants in lawsuits relating to lands located in the Yukon and in which Anderson Oil & Gas Inc. holds an interest. Anderson Oil & Gas Inc. is also the defendant in other lawsuits. The outcome of these lawsuits is not determinable at this time. These actions were commenced prior to the purchase of Anderson Oil & Gas Inc. by the Company. As part of the purchase agreement the Company has taken security together with indemnities from the vendor in the event that the lawsuits result in costs to the Company.

In the opinion of management, the resolution of these matters will not have a material effect on the financial position of the Company. However, to the extent that the Company is ultimately responsible for costs associated with any settlements, these costs will be accounted for as prior period adjustments.

9. **SUBSEQUENT EVENT:**

On October 21, 1994, the Company acquired interests in petroleum and natural gas properties and facilities for a purchase price of $30 million. The acquisition was financed with existing bank lines of credit.

10. **COMPARATIVE FIGURES:**

Certain figures for comparative periods have been restated to conform with the current year presentation.

TEN YEAR REVIEW

FINANCIAL (Millions, Except Per Share Amounts)	1994	1993	1992	1991
Revenue				
Oil and gas	$ 209.0	$ 136.6	$ 94.7	$ 93.6
Royalties (net of ARTC)	(42.9)	(26.1)	(18.1)	(20.8)
Interest and other	0.2	0.2	0.3	0.5
	166.3	110.7	76.9	73.3
Expenses				
Operating	35.2	24.4	20.5	18.6
Depletion and depreciation	66.7	42.7	30.5	23.7
General and administrative	8.0	6.2	5.6	4.6
Interest	8.4	10.1	11.0	8.8
Future site restoration	3.3	2.0	1.5	–
Petroleum and gas revenue tax	–	–	–	–
	121.6	85.4	69.1	55.7
Earnings before income taxes and unusual items	44.7	25.3	7.8	17.6
Unusual items				
Write-down of oil and gas properties	–	–	–	–
Other items	–	–	–	–
Earnings (loss) before income taxes	44.7	25.3	7.8	17.6
Income taxes				
Current	1.9	0.9	0.8	5.0
Deferred	18.6	9.4	3.8	6.6
	20.5	10.3	4.6	11.6
Net earnings (loss)	$ 24.2	$ 15.0	$ 3.2	$ 6.0
Cash flow from operations	$ 112.2	$ 68.8	$ 38.7	$ 36.3
Balance sheet information				
Net capital expenditures	248.9	81.6	119.1	33.0
Reduction (increase) in long-term obligations	–	66.2	(73.1)	7.9
Long-term debt	91.0	91.0	153.0	73.0
Working capital (deficiency)	(19.9)	(11.9)	2.3	1.9
Shareholders' equity	410.7	276.1	196.3	191.8
Common shares outstanding at September 30	56.9	49.4	41.4	41.2
Per share data (basic)				
Net earnings (loss)	$ 0.45	$ 0.33	$ 0.08	$ 0.15
Cash flow from operations	$ 2.08	$ 1.52	$ 0.94	$ 0.89
OPERATING				
Daily production				
Oil (bpd)	6,533	4,775	4,131	4,346
NGL (bpd)	1,734	1,182	1,617	1,082
	8,267	5,957	5,748	5,428
Natural gas (mmcf/d)	221.8	159.9	111.4	76.6
Proven reserves				
Oil and NGL (mstb)	29,360	19,389	17,690	15,147
Natural gas (bcf)	900	755	698	619
Proven plus probable reserves				
Oil and NGL (mstb)	43,893	28,424	25,413	22,281
Natural gas (bcf)	1,378	1,162	1,033	907
Wells drilled				
Gross	225	157	43	73
Net	172	90	21	54
EMPLOYEES				
Calgary	106	79	65	53
Field	110	79	67	61

1990	1989	1988	1987	1986	1985
$ 82.7	$ 66.3	$ 64.1	$ 60.5	$ 59.6	$ 90.1
(15.0)	(13.1)	(13.1)	(12.7)	(14.9)	(28.5)
0.7	0.9	0.7	0.6	1.6	0.8
68.4	54.1	51.7	48.4	46.3	62.4
14.5	9.5	9.1	6.6	6.8	6.6
19.8	15.1	14.0	15.3	15.1	19.9
3.5	2.7	2.4	2.3	2.2	2.3
11.3	10.5	8.9	7.8	9.3	11.5
–	–	–	–	–	–
–	–	–	–	4.6	9.1
49.1	37.8	34.4	32.0	38.0	49.4
19.3	16.3	17.3	16.4	8.3	13.0
–	–	–	–	(41.0)	–
5.4	3.0	–	–	–	(2.3)
24.7	19.3	17.3	16.4	(32.7)	10.7
0.9	0.4	3.4	7.9	5.9	3.6
10.6	7.9	6.6	2.2	3.8	12.6
11.5	8.3	10.0	10.1	9.7	16.2
$ 13.2	$ 11.0	$ 7.3	$ 6.3	$ (42.4)	$ (5.5)
$ 38.2	$ 31.0	$ 28.0	$ 23.8	$ 17.4	$ 29.4
72.5	32.3	24.8	14.1	12.6	18.4
11.4	10.0	6.2	7.2	3.7	18.1
75.0	80.0	85.0	86.4	89.9	92.9
3.4	0.3	3.9	(0.1)	(2.9)	(3.9)
182.7	131.0	119.7	110.9	105.5	144.2
40.6	36.2	36.2	35.6	35.6	35.6
$ 0.36	$ 0.31	$ 0.21	$ 0.18	$ (1.19)	$ (0.16)
$ 1.04	$ 0.86	$ 0.79	$ 0.67	$ 0.49	$ 0.83
3,821	1,636	1,464	1,034	898	966
1,162	1,155	1,242	545	296	438
4,983	2,791	2,706	1,579	1,194	1,404
66.0	71.3	69.0	62.2	51.8	68.4
16,422	15,298	14,778	15,430	10,760	5,950
575	556	543	512	432	438
24,014	23,841	20,997	21,465	17,090	16,160
872	810	765	721	621	638
105	77	74	39	49	54
77	49	42	18	22	28
52	42	40	38	39	40
53	44	39	39	30	26

CORPORATE OFFICERS

J.C. Anderson
Chairman & Chief Executive Officer

Larry J. Macdonald
President & Chief Operating Officer

David G. Scobie
Senior Vice President &
Chief Financial Officer
Secretary-Treasurer

Alan D. Archibald
Vice President, Exploitation

Brian H. Dau
Vice President, Business Development

Kim E. O'Donnell
Vice President, Exploration

Arthur H. Williamson
Vice President, Operations

Gerald S. Read
Controller

MANAGERS

Henry H. Assen
Manager, Marketing

M. Darlene Iozzi
Manager, Financial Reporting

Dan F. Kell
Manager, Land

W. A. (Drew) Livingston
Manager, Facilities

Jerry D. Pennock
Manager, Production

Mickey J. Sutherland
Manager, Drilling

George S. Addison
District Superintendent
Fairview, Alberta

Douglas J. Moore
District Superintendent
Lloydminster, Alberta

BOARD OF DIRECTORS

J.C. Anderson (1968)*
Chairman & Chief Executive Officer
Anderson Exploration Ltd.
Calgary, Alberta

Ian D. Bayer+ (1984)
President & Chief Executive Officer
Hemlo Gold Mines Inc.
Toronto, Ontario

W. Gordon Brown ‡ (1982)*
Partner
Bennett Jones Verchere
Calgary, Alberta

Peter A. Cherniavsky ‡ (1976)*
Chairman
BC Sugar Refinery, Limited
Vancouver, B.C.

J. Richard Harris+ ‡ (1988)
Consultant
Calgary, Alberta

Charles J. Howard+ (1993)
President
Ausnoram Holdings Limited
Toronto, Ontario

Larry J. Macdonald (1992)
President & Chief Operating Officer
Anderson Exploration Ltd.
Calgary, Alberta

(Fiscal year elected as Director)
* Director of Predecessor Corporation
\+ Member of Audit Committee
‡ Member of Compensation Committee

DAVID E. MITCHELL

On September 1, 1994 Dave, who was the Company's Manager, Marketing, tragically and unexpectedly passed away at the age of 41. He was a very bright and dedicated employee and made a significant contribution to Anderson Exploration's success. Dave will be missed.

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Lloydminster, Alberta

AUDITORS
KPMG Peat Marwick Thorne
Calgary, Alberta

BANKERS
Royal Bank of Canada
Calgary, Alberta

SOLICITORS
Bennett Jones Verchere
Calgary, Alberta

REGISTRAR & TRANSFER AGENT
The Montreal Trust Company
Calgary, Halifax, Regina, Toronto,
Vancouver, Winnipeg

STOCK EXCHANGE
The Toronto Stock Exchange
Symbol: AXL

ANNUAL INFORMATION FORM
Copies of the Company's Annual Information Form are available on request.

CONVERSION & OTHER INFORMATION

Volume Reporting
All production and reserve statistics are Anderson Exploration's working interest amounts before deduction of royalties, unless stated otherwise. Where volumes are reported in barrels of oil equivalent, gas is converted to oil at 10 thousand cubic feet (10 mcf) per barrel.

Financial Reporting
All amounts are in Canadian dollars, unless stated otherwise. The Company's fiscal year end is September 30.

Metric Conversion
The petroleum industry in Canada has officially converted to the International System of Units for measuring and reporting. The following table notes conversion factors relevant to this report.

TO CONVERT FROM	TO	DIVIDE BY
Thousand cubic feet (mcf) gas	Thousand cubic metres (10^3m^3)	35.4937
Barrels (bbls) oil	Cubic metres (m^3)	6.2898
Feet (well depths)	Metres (m)	3.2808
Miles (distance)	Kilometres (km)	0.6214
Acres (land)	Hectares (ha)	2.5000

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